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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	FCC 92-537
Simplification of the Depreciation	)	CC Docket No. 92-296
Prescription Process	)	

MISSOURI PUBLIC SERVICE COMMISSION COMMENTS

The Missouri Public Service Commission (MoPSC) submits the following comments in response to the Federal Communications Commission's (FCC's) Notice of Proposed Rulemaking (NPRM) on Simplification of the Depreciation Prescription Process. Of the four separate options set out in the NPRM, Option No. 1 (the basic factors range option) appears the most reasonable and acceptable change from the present procedures, should the FCC determine that a change is warranted in the interstate process.

The concept of reducing regulatory costs is admirable; however, the FCC should be very cautious and thorough in its analysis of cost-reduction claims made about the suggested options. The MoPSC has participated in the FCC joint meetings ("three-way meetings") for many years and knows about the problems associated with that process. Nonetheless, the MoPSC has found these meetings to be beneficial to the FCC, as a vehicle for obtaining the states' input and concerns on the effects of proposed depreciation rates, and also beneficial to the states, by providing a forum for regulators to share concerns and experiences in setting depreciation rates. In most instances, problems have been resolved through the present process. We are not

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convinced that any cost savings derived from elimination of three-way meetings will be in the best interests of the regulators (FCC and states), the companies and the ratepayers. Three-way meetings are an efficient method for multi-state companies to allow coordination among various commissions with a single set of meetings.

We believe that a company's management must have adequate accounting procedures in place to properly determine depreciation matters within their business.[1] Depreciation expense is one of the largest operating expenses for telecommunications companies. If a company adjusted its annual accrual to affect the bottom line for financial reasons, the company could end up in difficulty similar to that experienced by railroad companies. It is imperative that the FCC not create an atmosphere wherein an adequate analysis of the requested rates would be thwarted. The companies should be required to continue maintaining continuing property records to provide the means of adequate analysis.[2]

Option 1 - Basic Factors Range Option

The basic factors range option could be appropriate for those minor accounts which consist of two percent or less of the total depreciable plant investment of the company. The ranges might be based upon national averages; however, careful consideration must be given to the varying circumstances in each company's operating area in determining the range. Even though the basic factors range option might work for the minor accounts, the process would not be acceptable for major accounts. A relatively small percentage change to any one or all of the

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[1] This is recognized in the FCC's NPRM, CC Docket 92-296 paragraph 10.

[2] See NPRM, CC Docket 92-296 paragraph 25.

basic factors for a major account can have a significant impact upon operating expenses of a company. As a result, the existing depreciation procedures should be continued for major accounts.

A change to the basic factors range option for the minor accounts should not cause a significant shift in expense levels for the companies, and therefore a phase-in would not be required for companies whose currently prescribed depreciation rates do not fall within the selected ranges.

The FCC asks what time frame should be applied to any review of basic factors ranges.[3] The MoPSC believes that an ongoing review of the ranges in conjunction with the present triennial reviews would be appropriate for updating the ranges. This would be convenient for the companies and state regulators involved in the triennial review of other plant accounts. A five- to ten-year review of ranges is too long in light of the pace at which technology is changing.[4] The MoPSC also believes that companies should only be allowed to change their chosen parameters within the range as part of the triennial review. An annual or bi-annual change in a company's chosen parameters may reflect changes in a more timely manner, but may generate unwarranted costs.

Many companies continue to be regulated under rate-base procedures at the intrastate level. If those companies were to receive newly-prescribed depreciation parameters from the FCC, on other than the three-year cycle, this would be another detriment to any attempt to

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[3] CC Docket 92-296, NPRM, paragraph 21.

[4] See paragraph 29a, page 11, NPRM, CC Docket 92-296.

synchronize interstate and intrastate depreciation parameters. It is reasonable to coordinate any changes with the appropriate state regulatory agencies to perhaps avoid interstate and intrastate conflicts.

Option 2--Depreciation Rate Ranges Option

The depreciation rate ranges option is not a viable procedure to be applied across the board to all companies. First, the ranges would be established based upon an unspecified averaging process. In addition, the method of changing ranges is not specified. New ranges could be determined in the future merely by averaging what is used by some group of companies under existing ranges. Obviously, this is not a reasonable approach and emphasizes the need for adequate records and timely analyses. Another problem is that the establishment of ranges would fail to account for the fact that companies have now, and will have in the future, unequal reserves for depreciation. This significant variance could not be corrected in future rates, since it appears that remaining-life concepts would be abandoned.[5] There would not be a procedure available to determine and correct a reserve imbalance of any nature.

Option 3--Depreciation Schedule Option

Because this procedure would offer "the greatest deviation from accuracy"[6] in matching allocation of investment costs to the useful life of the facilities with which they are associated, this proposed method would not be fair to the companies or the ratepayers. Further, this fact may place the method into the realm of not complying with established law mandating

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[5] CC Docket 92-296, NPRM, paragraph 31 and 32.

[6] CC Docket 92-296, NPRM, paragraph 33.

prescription of appropriate rates. The discussion of setting up vintage schedules is reminiscent of the historical discussions when the FCC first proposed remaining life and equal life procedures. After adopting these procedures, the recognition was made that the accounting methods had become so complex that adjustments were necessary to relieve significant cost increases. The MoPSC does not offer comments on the other portions of the proposal because it does not believe that the depreciation schedule option is a viable option.

Option 4--Price Cap Carrier Option

This proposal is totally without merit. The FCC would become a rubber-stamp agency insofar as depreciation rates are concerned, abdicating its statutory authority.[7] The FCC, and many companies, spent untold hours and effort on the depreciation hearings related to remaining life and equal life depreciation methods. Those hearings emphasized the magnitude and importance of the depreciation of telecommunications company properties. The depreciation rates will necessarily be an important matter for review during the FCC's reconsideration of the price cap plans which it now has in place. The MoPSC agrees with FCC Commissioner Ervin S. Duggan that the goal of maintaining accurate prescription of telephone depreciation is paramount.

Additional Option Related to Salvage

Regarding additional options related to salvage, the MoPSC advances the following observations:

1. Traditionally, both segments of net salvage (i.e., gross salvage and cost of removal) have been included in the calculation of depreciation rates with the concept of matching cost

[7] Section 220(b) of the Communications Act of 1934.

recovery with consumption. This concept allocates costs to the users of the services provided by the plant distributed over the plant's life.

2. Traditional handling of net salvage requires difficult estimation of gross salvage and cost of removal. Current period accounting would eliminate the need of cost for removal and salvage studies. Charging net salvage expenses annually would impact the ratepayer of the current accounting period, rather than the ratepayer who benefitted from the retired plant.

3. Gross salvage and cost of removal charges may fluctuate greatly from one accounting period to another.

4. The possibility exists for a company to adjust the retirement of plant and the associated gross salvage and cost of removal expenses to coincide with the timing of a rate case.

5. Questions concerning treatment of past depreciation accruals for cost of removal and salvage need to be examined.

The MoPSC believes the issues mentioned above are too complex and go beyond the scope of this rulemaking to sufficiently resolve in this context. Therefore, the MoPSC suggests that these issues be examined in depth, either in a second phase of this docket or a separately docketed proceeding.[8]

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[8] See Resolution adopted by the Executive Committee of the National Association of Regulatory Utility Commissioners on 3-4-93.

Conclusion

Finally, we believe the FCC must be very cautious about receiving information relative to cost savings which may be attributed to adopting new depreciation methods for telecommunications companies. Any such information must be critically analyzed to discover the benefits or losses to the ratepayer. Poorly substantiated methods of reducing costs should not be hurriedly adopted. Abandoning authority for prescribing proper and accurate telecommunications company depreciation rates does not seem to be a wise approach. Each company has its unique management goals and policies and all companies should not be lumped together in some average or ranging concept. The better approach would be to incorporate cost-saving procedures into the FCC's present depreciation methods and to continue establishing depreciation rates for each individual company. Many cost saving ideas have been adopted in the present depreciation methods. The present three-way prescription process provides FCC and the several states the opportunity to review and analyze the various critical parameters which should be prescribed for each of the companies.

The MoPSC appreciates the opportunity to comment on the proposals included in the notice.

Respectfully submitted,

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I hereby certify that a copy of the foregoing document was served by first class United States mail, postage prepaid, on this 10th day of March, 1993, on the persons listed on the following service list:

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